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MARX'S MONETARY THEORY OF VALUE AND CAPITAL AND CONTEMPORARY CAPITALISM

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CONTEMPORARY CAPITALISM IS CHARACTERIZED ON THE ONE HAND BY 'LIBERALIZATION' OF MARKETS, FLEXIBILITY AND RESTRUCTURING OF PRODUCTION STRUCTURES IN A DIRECTION UNDERMINING THE WORKERS' RIGHTS AND LIVING STANDARDS, AND ON THE OTHER BY A HUGE EXPANSION OF THE FINANCIAL SPHERE. THE AIM OF THIS LECTURE IS TO SHOW THAT MARX'S THEORY OF THE CAPITALIST MODE OF PRODUCTION CAN PROVIDE US WITH A DEEP INSIGHT INTO THE CAUSAL REGULARITIES BEHIND THESE PHENOMENA. IT IS THUS A NECESSARY WEAPON FOR ALL THOSE WHO WANT TO CHANGE THE WORLD.

1. MARX'S MONETARY THEORY OF VALUE

Marx's theory of value constitutes not a 'modification' or a 'correction' of Classical Political Economy's theory of value, but a new theoretical domain, shaping thus a new theoretical object of analysis. Marx's notion of value does not coincide with Ricardo's concept of value as 'labour expended', but it constitutes a complex notion, a theoretical 'junction' which allows the deciphering of the capital relation, by combining the specifically capitalist features of the labour process with the corresponding forms of appearance of the products of labour. In this way, value becomes an expression of the capital relation and the Capitalist Mode of Production (CMP) emerges as the main theoretical object of Marx's analysis.

Marx shows that the products of labour become values because they are produced within the framework of the capital relation. Further, that value necessarily manifests itself in the form of money.[1] Accordingly, money is the par excellence manifestation of value and thus of capital.

From the *Grundrisse* (1857-8),[2] to *Capital* (1867),[3] Marx insisted that value is an expression of relations exclusively characteristic of the capitalist mode of production. Value registers the *relationship of exchange* between each commodity and *all other* commodities and expresses the effect of the specifically capitalist homogenisation of the labour processes in the CMP, (production for-the-exchange and for-profit), as delineated through the concept of *abstract labour*.

The first feature of money is its 'property' of being *the general equivalent*. Thus the relation of general exchangeability of commodities is expressed (or realised) only in an indirect, *mediated* sense, i.e. through money, which functions as *general equivalent* in the process of exchange, and through which all commodities (acquiring the relative position) express their value.

The Marxian analysis does not therefore entail reproduction of the barter model (of exchanging one commodity for another), since it holds that exchange *is necessarily mediated by money*. Money is interpreted as an *intrinsic and necessary element in capitalist economic relations*.

'Commodities do not then assume the form of *direct mutual exchangeability. Their socially validated form is a mediated one*' (MEGA II, 5: 42).

In Marx's theoretical system there cannot be any other measure (or form of appearance) of value. The essential feature of the 'market economy' (of capitalism) is thus not simply commodity exchange (as maintained by mainstream theories) but monetary circulation and money:

'the *social* character of labour appears as the *money existence* of the commodity and hence as a *thing* outside actual production' (Marx 1991:

649).

2. Money as Capital

The object of Marx's analysis is, as already argued, the Capitalist Mode of Production (CMP). The method that Marx utilises to fulfil his theoretical project is the 'gradual building up' of concepts, by moving on successive levels of theoretical abstraction and including constantly new determinations to these concepts.[4] One comprehends then that in Marx's theory of money the notion of the 'general equivalent' cannot be the final, but an *intermediate*, provisional and 'immature' concept in the course of the theoretical analysis. The same is valid for the sphere of circulation of commodities, which according to Marx builds the outer husk or the surface of the whole capitalist economy. The sphere of circulation is a structural feature of the CMP; it characterises no other mode of production.[5]

Even from the moment that Marx introduces the notion of money as the general equivalent he argues that money does not only play the role of a 'means' or a 'measure', but that it also tends to attain the role of an 'end in itself' (hoarding, means of payment, world money). Here we have to deal with an introductory definition of capital, with the (provisional and 'immature') introduction of the concept of capital: money functioning as an end in itself.

In order to be able to function as an end in itself, money has to move in the sphere of circulation according to the formula M–C–M. Due to the homogeneity of money however, this formula is meaningless[6], unless for the case that it describes a quantitative change, i.e. an increase in value: The aim of this motion cannot be anything else than the continual 'creation' of surplus-money. The formula becomes then M–C–M´ where M´ stands for M+ΔM .

However, money can function as such an 'end in itself' only in the case that it dominates over the sphere of production and incorporates it into its circulation, M–C–M´, i.e. when it functions as (money) capital. The exploitation of labour power in the production sphere constitutes the actual presupposition for this incorporation and this motion. Thus

'*the circulation of money leads (…) to capital*' (Marx 1993: 776).

Capital is value appropriated by capitalists. Precisely because it constitutes value, capital makes its appearance as money and commodities. But the commodities that function as capital are certain specific commodities: the means of production (constant capital) on one hand and labour power (variable capital) on the other.

In the Marxist theory of the capitalist mode of production both value and money are concepts which cannot be defined independently of the notion of capital. They contain (and are also contained in) the concept of capital. Marx's theory, being a monetary theory of value, is at the same time a monetary theory of capital.[7]

The motion of money as capital binds the production process *to* the circulation process, in the means that commodity production becomes a phase or a moment (although the decisive moment for the whole valorisation process) of the total circuit of social capital: M—C (= Mp+Lp) [→P→C´]—M´[8]

'Value therefore now becomes value in process, money in process, and, as such, capital. (…) The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits' (MEW 23: 167; 170; Marx-Internet 1872, Ch. 4).

The circuit of social capital attains its dynamics from the exploitation of labour power in the sphere of production. However, it is wider than the commodity production and circulation process, since it embraces also the spheres of credit and finance, i.e. all the secondary markets of financial products through which the flows of ΔM are being 'socialized' within the 'milieu' of owners of money-as-an-end-in-itself, i.e., in the last instance, within the bourgeoisie class.

3. CREDIT AND THE FINANCIAL SPHERE

Marx's monetary value and capital theory shows at first that money constitutes the value form of commodities, as it is the embodiment of self-expanding value, of capital. Marx further shows, that credit money builds the most adequate form of money as capital, its ideal form: it is the form appertain to 'self-valorising value', as it manifests capital's ability to put in motion the process of its reproduction on an expanded scale. One has of course to bear in mind that the creation of credit money (the expansion of credit) takes place under preconditions which make possible the expanded reproduction of capital at a given rate.

The non-neutrality of money and its significance not as a mere means of exchange that facilitates transactions, but mainly as a store of value which may be held for future transactions, in response to economic uncertainty and future expectations, has been stressed also by Keynes. Further to this, Post-Keynesian theorists, following Kaldor's tradition, formulated the conception that in contemporary developed economies based on credit, money is created endogenously. According to the Post-Keynesian approaches, the origin of money is economic activity itself: In

response mainly to investment spending, money is created in the form of credit, which determines the creation of reserves (and in most cases the issuing of fiat money) by the Central Bank; in a different formulation, the money supply is determined by the demand for (credit) money.

However, these approaches are not theoretically founded (on the basis of a theory of the capitalist relations of production), but are formulated by means of model construction based on rather empirical arguments.[9]

The empiricist-descriptive character of the Post-Keynesian theses, allows Neoclassical theorists to affirm the opposite statements: Rationally thinking economic agents are not interested in monetary but in 'real' magnitudes (quantities, relative prices. This affirmation is in accordance with the microeconomic foundation of 'orthodox' economics). Loans and deposits are simply the monetary outcome of rational decisions or expectations, which aim at spending or saving of 'real' magnitudes, i.e. of certain quantities of goods and services. The demand for loans by enterprises means nothing more than the demand for 'production factors' from other enterprises or households.

Marx's monetary capital theory implies an 'inversion' of the Post-Keynesian thesis about the endogenous character of money: The creation and circulation of money is not endogenous in the process of commodity production and circulation, but on the contrary, the production and circulation of commodities is endogenous in the overall social circuit of money (containing also the financial sphere), whose motion is determined by its function as capital.

With another formulation, the analysis on the basis of Marx's categories has shown that all conceptions of dichotomy between the 'real' economy and money shall be abandoned. Money is not simply endogenous in the economic relations. Its motion *is* the material expression of the capitalist economic relations. Commodity production and circulation shall be comprehended as a moment (both structurally and temporally) of these economic relations, i.e. of the overall social circuit of money capital. The fact that commodity production and circulation constitute the decisive moment of the capitalist relations of production (pumping out of surplus value) does not change anything to the thesis just stated:

'This circulation of money in turn leads to capital, hence can be fully developed only on the foundation of capital, just as, generally, *only on this foundation can circulation seize hold of all moments of production*' (Marx 1993: 776, emphasis added).

In this theoretical framework it is easy to understand why states and monetary authorities neither play the dominant role, nor constitute an instance external to the endogenous money creation. Besides, they cannot contain speculation which is inherent in the circuit of total-social capital. It is neither a matter of a 'money supply' that compels the 'demand for money' to an equilibrium position nor the case of a 'demand for money' to which a 'from outside directed' money supply must adjust. Money is the 'objectification' of the capital relation (the embodiment of 'self-expanding value') and the vehicle of its expanded reproduction.[10]

Money creation and financial expansion is the result of the dynamics of capitalist expanded reproduction on the total social level, which, in the last instance, determines the will of all legal, political, technical, etc. agents and the functioning mode of state apparatuses or authorities.

Marx's theses in *Capital* enables the understanding of all major forms of contemporary capitalism, and, therefore, the further development of a comprehensive theory of credit and finance.

Marx formulates his monetary value and capital theory in the five first Chapters of Volume 1. However, he extensively deals with credit and the endogenous character of money only in Part V. of Volume 3 (Chapter 21-36), i.e. after more than 1.400 pages (MEW edition):

Credit money constitutes the most adequate form of money as capital, its "ideal" form: it is the form that corresponds to "self-valorising value", allowing for the process of expanded reproduction of social capital to function "as a pure automaton" (MEW 25: 412. Marx-Internet 1894, Ch. 24). Since the level of monetary circulation is determined by the process of capital accumulation, a process which is intertwined with the creation of credit money, state-created money (fiat money and "commodity money") constitutes a subordinate money form. Compendiously, Marx develops in *Capital* the following theses:

a) *With the development of capitalist economic relations, credit-money becomes the main money form*.[11]

b) *The accumulation of capital must therefore base itself on credit relations*.[12]

c) *Capitalism shall be regarded not merely as a money-economy but mainly as credit-economy*.[13]

d) *The extent of credit depends on the level of capitalist development of the country under consideration, which may, on the other hand, be influenced by credit relations*.[14]

e) *As credit becomes the main form of money in a capitalist economy, the possibility arises for financial crises to break out, independently of the occurrence of an overproduction economic crisis. An expansive credit policy could ease a financial crisis at its start*.[15]

f) *Credit constitutes not merely the lender's claim on future values (on future production): in the framework of the totality of capitalist social relations, it constitutes property's claim on labour, which appears as a 'fetishist' natural order*.[16]

The above-presented theses are definitively relevant to contemporary discussions and controversies over the theory of money, credit and crises.

On the basis of this analysis we may understand that finance (financial commodities such as securities and derivatives) functions as a mechanism of continuous evaluation of the profitability level of enterprises and of the price of fixed capital, which, since fixed in an enterprise, is not circulating on the market any more. In this manner financial transactions commensurate all different forms of assets, imposing profit maximization criteria with which labour is pushed to comply.

A CONCLUDING REMARK

According to Marx's monetary value and capital theory commodity production and circulation shall be understood as a moment of the circuit of total-social money capital (M-C-M´).

Capitalist exploitation and surplus value is not conceived as a simple "subtraction" or "deduction" from the product of the worker's labour but as *a social relation, which necessarily takes the form of (more) money, as the increment in value brought about by the overall circuit* of total-social capital. Value is mobilised for the sake of surplus value (money as an end in itself) and is made possible through surplus value. Capital is a "self-valorising value"

In this context credit and finance (all the secondary markers of bonds, securities, derivatives etc.) do not constitute some 'isolated' sphere of 'speculation', a casino-like 'zero-sum' game of some 'speculators' who are the antipodes of 'productive capital'. Credit and finance is a *necessary* moment of the overall circuit of total-social money *capital*, a mechanism of asset value commensuration and surplus-value "socialization" within the ruling capitalist class.

1 The product of labour 'cannot acquire the properties of a socially recognised universal equivalent, except by being converted into money' (Marx-Internet 1872, Ch. 3; MEW 23: 120).

2 'The concept of value is entirely peculiar to the most modern economy, since it is the most abstract expression of capital itself and of the production resting on it. In the concept of value, its secret is betrayed. (…) The economic concept of value does not occur in antiquity' (Marx 1993: 776 ff.).

3 '*The value form of the product of labour* is the most abstract, but also the *most general form* of the bourgeois mode of production as a particular kind of social production of a historical and transitory character' (Marx 1990: 174).

4 The point of departure shall always be a 'simple', i.e. easily recognizable form, which though may lead to the 'inner'-causal relationships: '*De prime abord*, I do not proceed from "concepts," hence neither from the "concept of value," and am therefore in no way concerned to "divide" it. What I proceed from is the simplest social form in which the product of labour presents itself in contemporary society, and this is the "*commodity*." This I analyse, initially in the *form in which it appears*' (MEW 19: 368, Marx-Internet 1881). 'The simple circulation is mainly an abstract sphere of the bourgeois overall production process, which manifests itself through its own determinations as a trend, a mere form of appearance of a deeper process which lies behind it, and equally results from it but also produces it –the industrial capital' (MEGA II, 2: 68-9).

5 'An analysis (…) would show, that the whole system of bourgeoisie production is presupposed, so that exchange value may appear on the surface as the simple starting point, and the exchange process (…) as the simple social metabolism which though encircles the whole production as well as consumption' MEGA II.2: 52 (*Urtext von 'Zur Kritik der Politischen Oekonomie'*, 1858).

6 Or, better, aimless: it can neither cause a change in the quality nor in the quantity of the entity in motion.

7 '(…) value requires above all an independent form by means of which its identity with itself may be asserted. *Only in the shape of money does it possess this form*. Money therefore forms the starting-point and the conclusion of every valorisation process' (Marx 1990: 255).

8 The capitalist appears on the market as the owner of money (M) buying commodities (C) which consist of means of production (Mp) and labour power (Lp). In the process of production (P), the C are productively used up in order to create an outflow of commodities, a product (C´) whose value would exceed that of C. Finally he sells that outflow in order to recover a sum of money (M´) higher than (M).

9 The empirical observation of different sides of economic life shows, according to this approach, that the point of departure in the process of money creation is the taking out of loans by enterprises, which determines the increases in deposits and, finally, in reserves. The stream of cause and effect runs from (increasing) loans through (equally increasing) deposits to (increasing) reserves, not the other way round.

10 'In order not to petrify as hoard, money must always go into circulation, exactly as it has come out of it, but not merely as means of circulation but (…) as *adequate exchange value,* but at the same time as *multiplied, increased exchange value, valorised exchange value*' (MEGA II/2: 77).

11 'It is a basic principle of capitalist production that money, as an independent form of value, stands in opposition to commodities, or that exchange-value must assume an independent form in money; (…). This must manifest itself in two respects, particularly among capitalistically developed nations, which to a large extent replace money, on the one hand, by credit operations, and on the other by credit-money' (MEW 25: 532. Marx-Internet 1894, Ch. 32). 'And this economy, (…) consists in eliminating money from transactions and rests entirely upon the function of money as a means of payment, which in turn is based upon credit (…)' (MEW 25: 536-7. Marx-Internet 1894, Ch. 33).

12 'The advance of money that must take place in the reproduction process appears as an advance of borrowed money' (MEW 25: 522. Marx-Internet 1894, Ch. 32).

13 Capitalism is 'a system of production, where the entire continuity of the reproduction process rests upon credit' (MEW 25: 507. Marx-Internet 1894, Ch. 30). 'This social character of capital is first promoted and wholly realized through the full development of the credit and banking system. (…). The banking system shows, furthermore, by substituting various forms of circulating credit in place of money, that money is in reality nothing but a particular expression of the social character of labour and its products' (MEW 25: 620. Marx-Internet 1894, Ch. 36). See on this Heinrich 2003.

14 'The maximum of credit is here identical with the fullest employment of industrial capital, that is, the utmost exertion of its reproductive power without regard to the limits of consumption. These limits of consumption are extended by the exertions of the reproduction process itself' (MEW 25: 499. Marx-Internet 1894, Ch. 30).

15 'As long as the *social* character of labour appears as the *money-existence* of commodities, and thus as a *thing* external to actual production, money crises – independent of or as an intensification of actual crises – are inevitable. On the other hand, it is clear that as long as the credit of a bank is not shaken, it will alleviate the panic in such cases by increasing credit-money and intensify it by contracting the latter' (MEW 25: 533. Marx-Internet 1894, Ch. 32).

16 'In so far as we have hitherto considered the peculiar form of accumulation of money-capital and of money wealth in general, it has resolved itself into an accumulation of claims of ownership upon labour' (MEW 25: 493. Marx-Internet 1894, Ch. 30). 'Interest-bearing capital displays the conception of the capital fetish in its consummate form' (MEW 25: 412. Marx-Internet 1894, Ch. 24).

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